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April 19, 2007

### VIA ECFS

Ms. Marlene H. Dortch, Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> Street, S.W.  
Washington, DC 20554

Re: *In the Matter of Implementation of the Pay Telephone Reclassification and  
Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-128*

Dear Ms. Dortch:

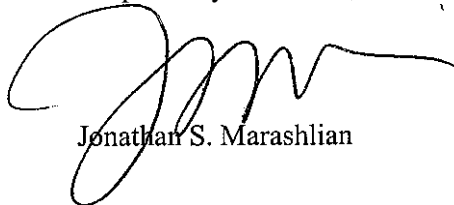
Attached is a copy of the 2007 Call Tracking System Audit Report for Locus Telecommunications, Inc. ("Locus"), as required by Section 64.1320 of the Commission's Rules, 47 C.F.R. §64.1320.

Pursuant to Section 64.1320(e) of the Commission's Rules, 47 C.F.R. §64.1320(e), also attached is a copy of Locus' statement regarding contact information for the person responsible for handling Locus' payphone compensation and for resolving disputes with payphone service providers regarding compensation.

Copies of Locus' System Audit Report and Section 64.1320(e) Statement, as well as other information regarding payphone compensation and Locus' compliance with Commission Rules, are posted on the company's Internet website, [http://www.locustelecom.com/html/ps\\_callingcard2.html](http://www.locustelecom.com/html/ps_callingcard2.html).

Should you have questions regarding any of the above, please contact the undersigned.

Respectfully submitted,



Jonathan S. Marashlian

cc. Peter Kim

## SECTION 64.1320(e) STATEMENT

### Locus Telecommunications, Inc. Payphone Service Providers (PSPs) Dispute Resolution Process

#### I. Introduction

Locus Telecommunications, Inc. will pay compensation directly to the PSP, or the representing agent of the PSP, for completed calls on a quarterly basis. For questions or concerns related to payphone compensation, please address to:

Locus Telecommunications, Inc.  
Attn: Hana Jung  
111 Sylvan Avenue  
Englewood Cliffs, NJ 07632  
Email address: hana@locus.net  
Telephone: (201) 585-3629

#### II. How to File Disputes

If you disagree with any of the payphone compensation quarterly calculations provided by Locus, you must include the following information in your dispute:

- a. PSP payphone number (ANI) being disputed
- b. Date, time, toll free 800# and destination number called
- c. Claim quarter of dispute
- d. Any additional information that may help to resolve the dispute

Please provide your dispute information in Excel format/file. Along with the dispute information, please provide a contact name, number, and email address to where the response for the dispute should be addressed.

#### III. Dispute Response Time

Locus will use all reasonable efforts to respond to your disputes as quickly as possible. However, please note that response time will vary based on the quantity of payphone number(s) being disputed.



Telecommunications Audit Department  
Carrier Compliance

Missy Sue Mastel, CPA

FINAL

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## Auditors Report: FCC Order 96-128

We have examined the accompanying description of the controls at *Locus Telecommunications, Inc. (Locus)* applicable to *recordkeeping*, reporting, and payment provided to payphone service providers serviced through the switch. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of Locus' controls as it related to PSP compensation, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and (3) such controls have been in place through September 30, 2006. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls of Locus, presents fairly, in all material respects, the relevant aspects of Locus' controls that have been placed in operation through September 30, 2006. **Also**, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that dial around compensation objectives, as documented in FCC Order 96-128 and related Orders, would be achieved if the described controls were complied with satisfactorily and third parties applied those aspects of internal control contemplated in the design of Locus Communications' controls.

This information has been provided to all interested parties. In our opinion, the controls that we tested are operating with sufficient effectiveness to provide material and reasonable assurance that the control objectives were achieved during the period between July 1, 2006 and September 30, 2006.

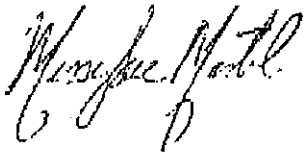
The relative effectiveness and significance of specific controls at Locus and their effect on assessments of control risk for PSPs are dependent on their interaction with internal control, and other factors present at PSPs and PSP aggregators, as well as the internal controls of third parties involved in Locus' processing of PSP dial around compensation.

We have performed no procedures to evaluate the effectiveness of internal controls at any third party associated with this process.

The description of controls at Locus is as of September 30, 2006 and information about tests of the operating effectiveness covers the period from July 1, 2006 to September 30, 2006. Any projection of such information into the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specific controls at Locus is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that: (1) changes made to the system or controls, (2) changes in the processing requirements, or (3) changes required because of the passage of time, may alter the validity of such conclusions.

This report is intended solely for use by management of Locus, PSPs and other vendors of interest, the FCC in verification of fulfillment of Order 96-128, and the independent auditors associated with such organizations.

**Signed,**

A handwritten signature in black ink, appearing to read "Missy Sue Mastel". The signature is written in a cursive, flowing style.

**Missy Sue Mastel, CPA**

**Mass-Tel Communications**

**March 30, 2007**

## **Section 1: Overview of Operations and Internal Control Features**

### ***Overview of operations***

DAC is the system whereby owners of payphones are compensated when a user places a calling card or other dial-around service to place a long distance call. Every time a person uses a payphone to place a long-distance call and dials a long-distance company other than the one assigned to the payphone, the dialed company must pay the payphone owner a fee. Payphone service providers and aggregators bill the Switched Based Reseller (SBR) or LEC by providing a list of ANIs, and the LEC and SBR match those ANIs to Call Detail Records (CDRs) from the switch, and pay on all calls that require compensation. Since payment is only due on completed calls of a certain duration when dial around services are used, the carrier's CDR utility program captures all relevant data pertaining to whether the call requires DAC or not.

While Locus has been operational since 1996, procedures for compensating the PSPs were the responsibility of the underlying interexchange (IXC) carriers through December, 2003, and the underlying IXCs continued to bill for PSP compensation through June 30, 2004. As such, Locus has been responsible for performing DAC activities since July 1, 2004.

In the quarter under review, Locus was invoiced by twenty-one (21) separate PSP consolidators for all DAC requests. All carriers and their associated PSPs were reconciled and paid using in-house processes. We will perform procedures on these processes as it pertains to the accuracy, timeliness and completeness of the records for DAC.

### **General Operations**

Locus **sells** prepaid calling cards under a variety of affinity programs through four separate carriers. Each type of product has its own 800 number provided by the underlying carrier, which connects to the Locus switches. These 800 numbers are printed on cards and sold to end users. Thus, all the calls processed through the Locus switch are coinless calls, although both payphone and hotel phones are common service providers. At the time an end user places a call, the 800 number connects the call on the underlying carrier network, directs that call to the Locus switch where the call is received, authenticated, and then sent for termination over a Least Cost Routing mechanism to complete the call. The Locus switch authenticates both the user, via PIN, and the termination number, via answer supervision, before it registers the call as connected for purposes of DAC.

We note that Locus passes initial answer supervision back to the underlying carrier for the 800 portion of the call before it is connected through the switch to the called party. This does not constitute a completed call, but can create discrepancies with calls reported

by the underlying carrier to PSPs and PSP aggregators. We understand that PSPs and PSP aggregators have been making consideration for audited SBRs and their reporting on complete v. incomplete calls, but performed additional percentage testing, to follow. Appears reasonable and consistent.

Locus uses 17 switches maintained in two separate switch collectives, one in Southern California and the other in northern New Jersey. As call records are processed, the information relating to origination, requested termination, header time, and talk time are filed in the switches' platform database, and then downloaded real-time to the Informix mainframe database.

As a switched based reseller, Locus has had limited direct relationships with PSPs or PSP aggregators prior to 2004. Overall, payphone service providers have relationships with the LEC, and process claims for compensation with the LEC servicing the phone. In many coinless cases, the LEC acts also as a PSP aggregator, and provides a list of ANIs to the SBR, or facilities based- reseller, for tracking the delivery of the call to the SBR's switch. Locus, as the SBR, reconciles the ANI against calls completed and compensable from their switch records. Calls are rated, and payments to the LEC or aggregator are made quarterly, who in turn reimburses the PSP. For APCC and other PSP aggregators, invoices of all ANIs in operation are sent directly to Locus, who then reconciles this list against calls made to determine earned compensation. Over the past 6 quarters, ANI ownership disputes between PSPs have been handled by the PSPs, although in-house procedures for ANI dispute resolution have been developed.

### **General Reconciliation Process**

Locus' reconciliation processes include managing the PSP vendors, receiving invoices relating to the BTNs under management by the various payphone providers and their associations, and submitting payments and claim reports to PSPs and PSP aggregators. The PSPs submit their ANIs and invoices, if available, to Locus. Locus creates a quarterly master ANI list from the invoices to run against the CDRs looking for matches on calls.

PSPs and LECs invoice their payphone surcharges quarterly, in one of three formats:

- 1) CD ROM or disk billing
- 2) Paper, or
- 3) In a unified invoice from APCC,

For APCC PSPs and the disk billers, a list of phone numbers, or ANIs, is sent representing the phone numbers that are owned and operated by the PSPs and are thus eligible for DAC. The carrier or PSP representative lists all possible numbers, and leaves it to the reconciliation process to locate those phone numbers on CDRs and verify compensable calls.

A handwritten signature in black ink, appearing to read "Nasa-Tel".

#### For switch reconciliation

Each switch downloads the CDRs real-time to the Informix database, which then prepares and processes the call detail for bill reporting and invoicing. These reports are kept in the Informix database for four months at a time, the current quarter and one

month prior, and each quarter is reconciled and archived, as well. A report known as the Payphone Summary Report is generated quarterly for the purposes of reconciliation, using parameters that ensure that all eligible compensation calls appear. These reports generate a compilation of all CDRs that are completed to the called party, and match the master list of ANIs. Locus filters payphone calls, using infodigits, from its database to determine compensable calls.

The database generates the payphone flag from the info digit field, so that while a payphone indicator field is present, it is not used to filter the calls that are then compared to the ANI look-up table for DAC. Thus, Locus uses a complete database of call detail records for comparison with the invoices from the PSP. Appears reasonable.

Locus performs reconciliation on a quarterly basis, whereby it compares ANIs reported by the PSPs to the database of calls provided by the switch reports and validates the claims for payment by the PSPs. Since the PSPs invoice the carriers, the database used to determine which ANIs belong to which payee are from the PSPs ownership records, which are sent along with the invoicing ANIs. Disputes of ownership are managed via Locus' PSP duplicate ANI resolution process procedures which are published on the website. There have been no reported escalations beyond these procedures.

Claim reports sorted into various spreadsheets by carrier, by check, and by submission are available and are reviewed by the financial directors of Locus, and once management validates the report and the total, the agreed-upon amount is paid via check or wire transfer. Locus makes payment to the PSPs and aggregators by the 91<sup>st</sup> day after the quarter ending, as per the Order. Reports to the PSPs and aggregators include all required CIC code, rating, SBR ID and PSP ID information. Appears reasonable.

Reconciliation is an automatic process, and summary reports detailing the ANI and all associated compensable calls are prepared. The CDR report is totaled for the number of records per customer and that number is used as the reconciled number for comparison and dispute against the carrier bill.

While there are discrepancies between the call count that was sent from the carrier to the aggregators and the final paid amount, most of the discrepancies between the PSP invoices and the CDRs stem from complete vs. incomplete calls. The reports received from the underlying carriers are unable to capture call completion information and, thus, the reconciliation and audit assists the aggregators in validating the completeness of the completed call records processed for payment. We reviewed trending of completed and PSP compensable calls to determine that the percentage of complete vs. incomplete calls did not decrease with the procedural change to SBR payment responsibility and also tested to ensure that the CDRs coming from the switches to the Informix reporting interface were complete. Appears materially reasonable.

We noted that Locus does not perform any review of the ANI payment to ensure against calling fraud. Per discussion with Software Engineering, Locus relies on the PIN



authentication process to establish the validity of each call, and thus does not review their reconciliation work for fraud. We reviewed two reconciliations and reports and did not see ANIs with excessive usage. Locus will be reviewing reports for similar excessive usage. Appears reasonable.

## **Processing Detail**

As end-users dial calls using the 800 numbers on the prepaid calling cards from Locus, the Excel switches receive the calls from the originating carriers based on capacity and 800 number provider programming. When the 800 provider sends the call to the Locus switch, it sends the info digit and the 10 digit ANI+DNIS. The switch control host controls the switch and authenticates the call and the user PIN and accepts the terminating number. Once the termination number is entered and validated, it is sent out over Least Cost Routing programming. A call record generates at the time the call hits the Locus switch, recording the header information, including origination, routing, time stamp, program, product rate and termination information. If answer supervision is attained, then the talk time begins to record. The call record completes when the call is terminated, and is updated to the switch database in real time. Calls are attempted for 60 seconds before the call is considered incomplete.

If the connection between the Switch Control Host and the Switch Database is broken, switch control maintains the CDR in backup until it can reconnect with the database. The Main database server imports new CDRs and transaction records from all 17 Excel switches in real time. The number of imports running in real time is also monitored, and discrepancies are notified.

Each quarter, Young Ho Chun, Database Operations Engineer, runs reports out of the Excel switch sorted by PSP (aggregator) and date. These reports are delimited text files run in the Informix (reporting interface) from the switch. PSP contact and ownership information is relayed to the SBR in a separate file and is used to prepare final reporting back to the aggregators. When ownership of an ANI is in dispute, Locus will pay the first owner noted. Locus provides notice to the alternate party of its dispute procedures. Appears reasonable.

## **Data Integrity**

Per Peter Kim, Regulatory Compliance Specialist, and Young Ho Chun, Database Operations Engineer, all records have been kept since inception. Information related to CDRs is maintained live at the switch database for two months, and the main database keeps records for four months. After this period, all files are compressed and burned to CD and stored at an offsite location. Regular testing of the back-up data integrity, including uploading the offline database to an archive server and restoring the data to a server which is running Informix, is not performed regularly.

## Reconciliation Process Detail of DAC for PSPs

The Payphone Service Providers submit their ANI information either directly to Locus or through aggregators and IXC's. Per the Order, PSPs are able to make claims against the current quarter and prior five quarters, for a total of six quarters. We note that Locus retains and runs all ANI requests against all existing CDRs to date, and will not be expiring CDRs before 9 quarterly runs.

**As** the LEC does not send ownership information for the payphones, the LEC and the aggregators remain responsible for validating the ownership and payment information coming in from the LEC and the PSPs. Locus updates existing ANI look-up tables with new invoices sent in each quarter by the carriers/PSPs for changes to the information and disconnects that are processed each quarter. A Utility program is used to process the disconnect files and updates to the ANI data.

Locus then runs the updated ANIs against the CDRs for the quarter to match ANIs, and the payphone detail reports are created. The reports created are stored and archived to CD. **All** the invoices are processed together as one look-up table to prevent double payment for a duplicate ANI. Calls are sorted into categories by PSP and LEC, or SBR, and invalid claims, or calls with payphone flags that are unmatched, are kept in a suspense account in case the PSP will make a later claim on them.

Discrepancies in ANI reporting, as when a number is claimed by more than one party, are attempted to be resolved; first, by comparing the data to prior quarter data in an effort to identify the proper owner. If there is no way to substantiate one claimant over another, the first claimant is paid. The alternate PSP is then provided Locus' dispute resolution procedures in case they want to file a dispute. PSPs filing disputes with Locus must provide adequate documentation of their claim.

Once discrepancies have been corrected, ANI status report files are created for each PSP summarizing the ANI, the amount paid, and the underlying carrier, satisfying the reporting requirement to the PSP. Locus relies on the PSP aggregator, LEC, or IXC to distribute payments to their constituency. An ANI Master List File is not provided by the LEC, and thus Locus cannot issue reports on ANIs assigned to PSP IDs and other ownership information. We suggest that ownership information needs to be validated by the LEC or materials to validate ownership need to be provided by the LEC.

At any time during the quarter, the PSP aggregator or LEC may submit new information relating to the ownership of certain ANIs, and they are incorporated into the quarter being processed and run against the prior 5 quarters, as noted above.

## Call Records

Locus ensures the completeness and accuracy of the call records through their CDR gathering process.

Locus sells 800 service for calling cards to their customers, including LECs and other SBRs (switch based resellers) who want to offer 800 based calling cards to their customers. These numbers are then printed on cards and sold to end users. Thus, all the calls processed through the Excel switches are coinless calls, although both payphone and hotel phones are common service providers.

Each 800 DNIS that hits the switch is preprogrammed to a single customer's account for a specific product. If an 800 number is dialed, sent over the carrier, and the Locus switch does not recognize it, it is not processed by the Excel Switch. All 8XX calls that originate on the carrier's network are routed via LCR for termination of the dialed number.

Per Kevin Kim, Senior Manager, Switch and Network Operations, each of the Excel Switches are managed through a Switch Control Host, which controls the actions of the switch and begins documenting the CDR with the receipt of the info-digit and ANI+DNIS. When calls are terminated, the CDR is recorded as complete and sent real-time to the Informix database. For each CDR, the system generates fields to identify the origination and completion information on the call. These are set up through logic that is programmed into the Locus Platform.

- **Infodgt** – used to identify the nature and origin of inbound calls. 07, 27, 70 and 29 are possible LEC coding digit identifiers for payphone services.
- **Payphone** - this field determines whether or not the call is eligible for payphone compensation. Re-originating calls, whereby the same customer hits the #key, or “pound” to release his current call and make a new call, are also eligible for payphone compensation.
- **Newcall** - which indicates whether the call is an additional call being made on the same original dial, for which compensation is also required under FCC Order on Reconsideration, FCC 96-439.
- **rateddur** - This is the only indication that the call has actually been picked up by the receiving party. In many instances, the LEC will invoice for delivered calls, which are calls that pass through their switch, but will not be able to determine whether the call has been completed. This is the main discrepancy that occurs in the LEC billing and support for Locus' claim is based on this field. We suggest that a completion flag be added to the fields to give a binary representation and sorting capacity for call validation purposes.

We note there are no dial-around fields since the caller has already selected Locus as the prepaid carrier, and Locus uses least cost criteria to route the end-user call. Appears reasonable. The Switch Control Host will attempt completion for up to 1 minute before determining an incomplete call, which is recorded in the duration field.

The call records sent over are then run against the ANI invoice look-up tables for the quarter, and the calls are allocated to PSP and LEC, as required. Quarterly reports are generated 65 days after the quarter close indicating what is being paid out to the LECs,

IXCs and the aggregators on behalf of the PSPs, and payment is sent on or before the 91<sup>st</sup> day.

When PSP payments are approved via the report, the payment schedule files are used to create a spreadsheet that is sent to the accounting department to process wire transfers or checks. The files are also used to create payment summary reports that are sent to the PSPs with their check.

Once payments are sent, the CDRs are marked as paid in the system, archived and closed out of the open item reports, thus recording which calls have been paid upon and which remain outstanding due to no claims or disputes. Disputed calls are generally paid to the vendor of record, where prior claims can be used to determine status. All NO CLAIM calls, where the CDR reflects an ANI that is not appearing on any invoice, are accrued for possible prior quarter billing.

When a quarter becomes ineligible for payment request, unpaid Call Records are marked as Expired on the open item report, and all unclaimed call records are expired by the program. Locus was historically overbilled by the carriers, as they cannot discern complete v. incomplete call records. As such, expiration of unclaimed calls was not an issue. Locus is now processing DAC for more than 6 quarters, so expunging the claim report needs to be proceduralized. We recommended review and expunging of quarters that have expired. Appears reasonable.

Quarterly information is stored indefinitely. Stored databases are analyzed periodically to ensure that the data remains intact. The switch records are stored by Locus for 2 years, and are analyzed to ensure that they remain intact.

## **Disputes**

If a PSP or aggregator has a dispute about the payment made, the PSP can request that its original file (or a newly submitted file) be checked in greater detail. As stated above, most disputes are related to either ANI ownership or incomplete calls. Locus has a process by which they will request the disputing PSP provide ownership documentation and submit signed documentation from both the overpaid and the underpaid parties that agree upon the ownership of the payphone. If this information is not available, Locus requests the PSP to pass on the dispute to the LEC to try to obtain additional information and resolution. Appears reasonable.

Locus historically has disputes that result from billing of incomplete calls, but since the underlying carriers no longer are responsible for PSP, this is no longer an issue.

We note that there are no material disputes outstanding at this time.

## ***Internal Controls***

### **Control Environment and Organizational Chart**

Kevin Kim, Senior Manager, Switch and Network Operations, is responsible for programming the switches and the switch control hosts, and ensuring that the network remains up and running. Only 5 people per switch location have access to the switches, and they are the switch technicians and NOC engineers. There are two other people in Switch Operations, Jay J. Jee, and Minkyu Kim, that also have administrator access to the switch.

Mr. Young Ho Chun, Senior Manager MIS, is the administrator for the switch databases (SunSolaris, Windows NT, and Informix). The Switch systems all have Tae Won Cho, MIS Develop & Support Manager as a back-up administrator, and Windows NT has Shaun Ventura as a secondary administrator. Mr. Chun programs the system to locate info digits and other information relevant to the DAC system. All access is limited to specific tasks, user-profiled, and secure. Personnel with programming access for the database are not the same as personnel with network control. Only Mr. Chun has access to change payphone logic.

Peter Kim receives the invoices from the carrier/LECs and the PSPs. ANI databases are updated by Young Ho Chun for changes in payphone ownership and disconnects, and then are processed against the downloaded CDRs. The invoice payment report is reviewed by Mr. Peter Kim before sending them out to ensure that they appear materially accurate and that there are no large or unusual aspects to the report before they are sent over. If there are discrepancies, Peter Kim reruns the report, and then the report is reviewed manually. Sam Lee, Controller, then processes for payment via wire transfer or check.

The payment detail report is received within 65 days after the quarter end. It is reviewed by Peter Kim and is both trended against prior quarters for reasonableness and reconciled against summary monthly reports on payphone records collected. Additionally, a completeness percentage report is run to ensure that the percentage of call complete trends accurately from one quarter to the next. Payments are made to the PSPs by the end of the month. As approval and preparation of reporting information are kept separate, there appears to be little room for internal employee fraud outside of collusion. Invoices from the PSP are due by 30 days after the quarter end, so that the PSP can be paid by the last day of the next quarter. Appears reasonable.

We note that the Locus reconciliation process and the overall integrity of the DAC system rely on several internal controls to ensure the integrity of the system. These controls are communicated and complied with by Locus in the following manner:

## **General Contract and Regulatory Requirements**

Locus has warranted via letter signed by senior staff that the company and their representatives are responsible for maintaining compliance with laws, regulations, tariffs, and other general requirements in the course of doing business. Locus has provided documentation that they recognize these requirements and understand their responsibilities to comply with them. The integrity of the compensation system requires that Locus remains in compliance with all their attestations under the agreement. We also obtained and reviewed an executed copy of this letter, which indicates that the parties understand their obligations. Appears reasonable.

## **Access Controls**

Locus has maintained sufficient controls over who has access to switch and the reporting systems and under which circumstances changes and updates can be performed. The controls in place include:

- Limited access to switch and reconciliation processes
- Segregation of duties among report generation, reconciliation, and payment approval

Appears reasonable.

## **File Completeness and Timeliness**

Locus provides complete files, including completed call records for payphone originated calls, and are responsible for the completeness, accuracy, and timeliness of the call record files. The controls in place to provide such files are:

- Payphone logic that is standardized and verified
- Easily tracked sorting and filtering parameters
- Verification field in the reports
- Monthly reports are generated on the 3<sup>rd</sup> of the subsequent month

## **Payment Authorization**

Locus generates and reviews reports for reasonableness and makes payments to PSPs and aggregators from the summary payment documents *run* from the intersection of the ANIs billed and the CDRs for the quarter. Proper approval is controlled by Sam Lee, Controller.

## **Completeness of Records Processed**

The Excel switches collect data that is transferred into the Informix database real time, and tags all information to ensure that the transfer is complete. Locus does not filter the CDRs for payphone flag, but processes the ANI look-up tables against all CDRs for ANI

matches. Completion rates are tracked to ensure that the trend of call completion is consistent. Appears reasonable.

### **Dispute Resolution**

The FCC requires that a standardized process be in place to settle disputes that is data reliant. Locus has a dispute resolution process in place and provides this information to the PSP with each paid compensation. Locus' dispute resolution process is also published on its website. Locus requires consensual documentation from all interested parties that the resolution is fair and accepted. PSPs and their aggregators are required to provide whatever detail support may be necessary to validate any particular claim against a CDR or its DAC status. Appears reasonable.

### **Payment Rate**

All Locus customers use the default rate with their PSPs, there are no exceptions. Because the reconciliation is done quarterly and each CDR is time and date stamped, the rate calculations are performed on the individual CDR. Internal controls testing relating to rate verification include validating on Locus' summary report that all calls are included at the .494 per eligible call rate.

### **Fraudulent Call ID**

Locus relies on the authentication of the call via the PIN. Since the card needs to be bought to be used, the hidden PIN authenticates the user as a purchaser of the prepaid phone service, and has its own limitations in the amount of service available on that card. Thus, threshold.per ANI are not considered necessary, and all calls made from a **payphone** are considered compensable. Appears reasonable.

### **Contingency Procedures**

The switch information and CDRs are backed internally in the switch control host if connection between the switch database and Excel switch is broken. The switch databases back up to the Informix database in the main server, and communications failure between these two systems resets the system to reload any untagged CDRs. Appears reasonable. Reconciliation processes are automatic, but do not require special services or systems to perform, since the reconciliation is performed between raw data CDRs and billed ANIs in a lookup table. All disputes are reviewed through a case-by-case manual process. Appears reasonable.

## Section 2: Significant Control Objectives

The principal objectives of the system of internal controls pertaining to recordkeeping, reporting, and payment verification are as follows:

- 9 Policies and procedures are in place to ensure payment rates conform to FCC rules, either by default or as agreed to between parties.
- 9 Policies and procedures are in place relating to reporting elements as required by FCC Order.
- 9 Data is stored for a period at least as long as required by FCC rules.
- 9 Procedures are in place to establish, corroborate and validate proper PSP ownership.
- 9 System reporting for all eligible calls is both accurate and complete, and parameters for excluding calls are reasonable and consistent with the Order.
- 9 Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to Locus system requirements.
- 9 Specific personnel has been identified for verifying compensation to PSPs
- 9 Specific Personnel has been identified for handling dispute resolution with PSPs
- 9 Quarterly reports are verified for payphone call counts, PSP identities, numbers called, and payphone infodigits.
- 9 Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.
- 9 Policies and procedures are in place to properly compensate all compensable calls originated from validated payphone ANIs. In addition, such reports are maintained for the period required by the FCC.
- 9 Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.



## ***Description of Controls and Tests Performed***

Our test of the effectiveness of the policies, procedures, and controls included tests we considered necessary to evaluate whether those controls, and the extent of the compliance with them, is sufficient to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period between July 1, 2006 and September 30, 2006. Our tests of the operational effectiveness of controls were designed to cover the period from July 1, 2006 through September 30, 2006.

Test procedures performed in connection with determining the operational effectiveness of controls are described as follows:

1. Corroborative inquiry – Made inquiries of appropriate personnel and corroborated responses with other personnel to ascertain the compliance of controls.
2. Observation – Observed application of specific controls.
3. Inspection of evidentiary material – inspected documents and reports indicating the performance of the systems and controls.
4. Transaction testing – Used reports to recreate and document controls.
5. Trending and analysis – Reviewing percentage of calls over quarters. —

## ***Key Control Objectives***

### **Key Control Objective#1**

*Payment rates can either be based on a rate negotiated between the user and the PSP or the FCC default rate.*

### **Tests Performed**

- 1) Locus calculates their DAC obligations based on the rates negotiated between the SBR and the PSP, or where applicable, the rates included in FCC Order 96-128. Per discussion with Peter Kim, there are no agreements for alternative rates with PSPs. All rates at this point are the FCC default rate, which is currently .494 cents per compensable call.

We reviewed the DAC summary reports, noting that the calls paid for the quarter for PSPs of carriers processed by Locus were at the default rate(s) of .494. Per discussion with management, there are no contracts for rates other than federal mandated default rates. We reviewed the detail to ensure that all calls were at .494 per call. Appears reasonable.

- 2) For the remainder of the carriers, we reviewed the reconciliation Locus performed against the LEC invoices, noting that discrepancies were based on number of calls, but that every carrier is paid a minimum of ,494 per compensable call. We found no exceptions. Appears reasonable.

## **Key Control Objective#2**

*Policies and procedures are in place relating to reporting elements as required in by FCC Order.*

### **Policy or Procedure**

Per discussion with Peter Kim, Accountant-Tax and Compliance, reports are prepared on a quarterly basis for use by LECs, SBRs, and PSPs detailing the calls that originate by ANI, the amount paid per ANI, carrier IDs. Additional reports may be constructed for any party including ANI Master Lists, potentially fraudulent calls, dispute items, and other, as deemed necessary by any party.

### **Tests Performed**

- 1) We reviewed the reports that were provided by Locus, reconciling a variety of sample calls to switch reports and ANIs invoiced.
- 2) For the category “unclaimed ANIs”, we noted that the detail for these calls was provided for accrual and investigation purposes.

## **Key Objective #3**

*Data is stored for a period at least as **long** as required by FCC rules.*

### **Policy or Procedure**

Through interviews with key personnel, we noted that all records are kept on the switch platform for two months, and live in the Informix database for four months. **All** CDRs are downloaded each month to text files, compressed and stored on CDs. Duplicate copies are made and kept forever. Per Young Ho Chun, data integrity on these CDs has not been recently tested, but regular testing of the back-up data, including uploading the offline database to an archive server and restoring the data to a server which is running Informix, will be performed regularly.

## **Key Objective #4**

*Procedures are in place to establish proper PSP ownership*

## **Policy or Procedure**

Locus receives the ANI invoice and the PSP ownership listing from the PSP aggregators. Claim reports match the ANIs to the CDRs and then the completed call report is processed with the PSP ownership information. Appears reasonable.

## **Test Performed**

- 1) We reviewed the payment summary reports sent to the PSP aggregators and noted that PSP IDs are present and consistent.
- 2) We tied a sample of PSP IDs to the ownership listing from the aggregator invoices.

## **Key Objective #5**

*System reporting for all **eligible** calls **is** both accurate **and** complete*

## **Policy or Procedure**

Because Locus runs the ANI look-up tables against all info-digit positive CDR records for the quarter, the payphone flag is not used as a filtering system that might remove potentially Compensable calls. Since Locus is a pure coinless facilities-based reseller, all calls with matching ANIs and infodigits are considered compensable. These programs produce a matched report which is then sorted for consistency with FCC reporting requirements, and used to substantiate the payment. There are no discrepancies. The CDRs are also reviewed to ensure that the completion rate for all calls and the completion rate for DAC calls from prior quarters are consistent with the current DAC completion rate. Payphone reports are validated and or created before wire funds are transferred in payment.

## **Tests Performed**

- 1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at Locus to gain an understanding of the process and the internal control environment. Appears reasonable.
- 2) We reviewed the payphone logic and determined that the field parameters are sound.
- 3) We statistically sampled calls from the original switch CDRs to the Informix CDRs for those dates, and then to the payphone compensation reports generated for ultimate payment. For our sample, we noted that the entire sample of proper infodigit calls tested appears on the Locus report. Appears reasonable.

## **Key Objective #6**



numbers called and infodigits so that originated calls with eligible DAC can be determined, and validated ANIs, non-validated ANIs, potentially fraudulent calls and calls with ownership issues can be identified.

### **Tests Performed**

With the exception of ANI ownership testing, quarterly reports are reviewed for pertinent information and exceptions and unusual items are pulled for further investigation. We reviewed two quarters of reconciliation to determine the basis for disputes, which were LEC invoices denied for incomplete calls. Appears reasonable.

We tested the quarterly reports against the statistical sampling of data for the quarter, noting that the information from the CDRs was captured accurately as compensable or non-compensable calls. No exceptions.

### **Key Control Objective#8**

*Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.*

### **Policy or Procedure**

All calls passed to the Locus switches required a PIN authentication and are limited in their abuse, given the nature of the prepaid phone card. While Locus has introduced a manual check on ANIs to ascertain exorbitant calling patterns, system checks for fraud are not provided and may not be an improvement to the identification and investigation of fraudulent calls.

### **Tests Performed**

We inquired of personnel whether any fraudulent usage had yet been identified, and there has been no abuse or customer service complaints relating to non-authorized calls. Given the pre-use authentication required, appears reasonable.

### **Key Control Objective#9**

*Policies and procedures are in place to properly compensate all compensable calls originated from validated payphone ANIs. In addition, such reports are maintained for the period required by the FCC.*

### **Policy or Procedure**

See the narrative on DAC reconciliation and payment process above for greater detail. In summary, CDRs from the switch are sorted for matching ANIs by payphone infodigits,

and these records are summarized in the appropriate format for the PSP or aggregator. A second report for '00' infodigits is created by matching PSP ANIs sent. A summary report filtered by payphone flag field is not created, and the raw CDR data is used for determining compensable calls. PSP information related to ANI ownership is not gathered. The results are tested for consistency with historic completion rates. Locus reviews the report before wiring funds for payment to the PSP.

All data is stored on CD offsite, and 4 months are stored live in daily archives on a database server on the system. Per discussion with key personnel, Locus has begun uploading archived data to a dummy server and testing it for data integrity.

### **Tests Performed**

- 1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at Locus to gain an understanding of the process and the internal control environment. Appears reasonable.
- 2) We statistically sampled calls from the original CDR for those dates to the payphone reports generated for PSP payment, noting that the entire sample of payphone flagged calls tested appears on the Locus compensation report.

### **Key Control Objective #10**

*Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.*

### **Policy or Procedure**

Locus has established policies and procedures regarding system changes, including specific policies regarding:

- System change approval
- Identification of responsible persons
- System security controls
- Program security controls
- Capabilities to test changes and compare to known results

### **Tests Performed**

We interviewed key personnel and reviewed the logic associated with generating payphone flags, as well as authentication of calls and completed calls. We reviewed documentation with regard to the above and noted that it was consistent with stated policy. Appears reasonable.